

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

HB 1631 - SB 1806

January 27, 2020

SUMMARY OF BILL: Requires the first three years of refunding bonds to be taken into account when determining if such bond qualifies as balloon indebtedness and subject to the approval of the Comptroller of the Treasury (COT) prior to issuance.

ESTIMATED FISCAL IMPACT:

NOT SIGNIFICANT

Assumptions:

- Pursuant to Tenn. Code Ann. § 9-21-134(d), local governments must receive the approval of the COT prior to issuing balloon indebtedness.
- Balloon indebtedness exists if the indebtedness:
 - Matures 31 or more years from the issue date;
 - Delays the first principal payment for more than three years;
 - Capitalizes interest beyond the later of the construction period or three years from the issuance date; or
 - Does not have substantially level or declining debt service. In determining if indebtedness has substantially level or declining debt service, the first three years of debt service are not taken into account.
- The proposed language requires the first three years of debt service for a refunding bond to be taken into account when determining if such bond has a substantially level or declining debt service.
- Pursuant to Tenn. Code Ann. § 9-21-105(23), a refunding bond is a new bond which is issued and used to replace an original bond. Refunding bonds are issued to take advantage of lower interest rates.
- The proposed language may result in additional requests for approval coming before the COT prior to the issuance of debt. According to the COT, the projected number of such applications is expected to be minimal and can be accommodated utilizing existing staff and resources; therefore any increase in state expenditures is estimated to be not significant.
- In the event a refunding bond is considered to be balloon indebtedness and ultimately not approved for issuance by the COT, the requesting local government would maintain current payments on the original bond and would not realize a reduction in expenditures that would have been realized with refunding bonds due to lower interest rates.

- Any decrease in possible future savings for local governments cannot be quantified with reasonably certainty. However, COT reports that a total of 25 requests for approval for the issuance of balloon indebtedness was received by the COT over the most recent three fiscal years and all such requests have been approved.
- Therefore, due to the minimal number of additional requests for approval anticipated as a result of this legislation and the infrequency of request denials, it is reasonable to assume that the number of rejected refunding bond requests in any given year and subsequent impacts on local government expenditures will be not significant.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink that reads "Krista Lee Carsner". The signature is written in a cursive, flowing style.

Krista Lee Carsner, Executive Director

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